



REPORT OF THE AUDITOR-GENERAL TO THE NORTH WEST PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE MADIBENG LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the accompanying financial statements of Madibeng Local Municipality, which comprise the statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, as set out on pages [XX] to [XX].

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2010 (Act No. 1 of 2010) (DoRA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) my responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the International Standards on Auditing and *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*. Because of the matters described in the basis for disclaimer of opinion paragraphs, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

Corresponding figures

4. I was unable to obtain sufficient appropriate audit evidence to support the adjustments made to the corresponding figures for unspent grants of R25 955 687, accumulated surplus of R74 619 229, trade and other payables of R32 945 243, trade and other receivables of R83 907 652, other receivables of R2 722 167, other payables of R23 321 409, grant income of R25 955 687, bad debts of R36 839 340 and bulk purchases of R34 965 727 disclosed in note 37 to the financial statements. The municipality's records did not permit the application of alternative audit procedures. Consequently, I was unable to determine the completeness, accuracy, occurrence, cut-off and classification of these corresponding figures disclosed in the statement of financial performance and the completeness, existence, valuation and allocation, rights and obligations of these corresponding figures disclosed in the statement of financial position and corresponding notes.
5. The municipality exceeded its approved expenditure budget in the prior year with R832 971 836. The municipality however did not make the required adjustment on the disclosure of unauthorised expenditure of R54 960 638 in note 40 to the financial statements, resulting in the prior year unauthorised expenditure being understated by R778 011 201.

Property, plant and equipment

6. I was unable to obtain sufficient appropriate audit evidence to verify the completeness and existence of property, plant and equipment of R1 005 919 138 due to limitations placed on the scope of my audit. Furthermore, I was unable to obtain sufficient appropriate proof of ownership for property, plant and equipment of R1 372 471 335. The municipality's records did not permit the application of alternative audit procedures. Consequently, I was unable to determine the completeness, existence, rights and obligations of these assets included in property, plant and equipment of R1 455 573 891 (2010: R1 438 585 653) disclosed in note 3 to the financial statements.
7. The municipality did not review the residual values and useful lives of property, plant and equipment at each reporting date in accordance with SA Standards of GRAP, GRAP 17, *Property, Plant and Equipment*. I was unable to obtain sufficient appropriate audit evidence to determine the valuation of assets of R1 455 573 891 and the accuracy, occurrence and completeness of the depreciation and amortisation expense of R37 843 084 (2010: R39 460 596) disclosed in the statement of financial performance. The municipality's records did not permit the application of alternative audit procedures.

Consumer debtors

8. I was unable to determine whether the municipality used objective evidence to calculate the provision for impairment of receivables of R112 964 373 disclosed in note 25 and R591 840 983 disclosed in note 10 to the financial statements, as required by the South African Statement of Generally Accepted Accounting Practice, IAS 39 (AC 133), *Financial Instruments Recognition and Measurement*. Furthermore, consumer debtors of R360 452 275 could not be traced to subsequent payments. The municipality's records did not permit the application of alternative audit procedures regarding the calculation of the provision for impairment of receivables or the verification of consumer debtors. Consequently, I did not obtain all the information and explanations I considered necessary to satisfy myself as to the rights and obligations, valuation and existence of consumer debtors of R219 525 657 (2010: R114 796 073) disclosed in the statement of financial position and note 10 to the financial statements.

Other receivables

9. I was unable to obtain sufficient appropriate audit evidence for other receivables of R12 445 380 (2010: R12 445 380) disclosed in note 6 to the financial statements. The municipality's records did not permit the application of alternative audit procedures. Consequently, I was unable to determine the completeness, existence, rights and obligations, valuation and allocation of these receivables.

Provisions

10. I was unable to obtain sufficient appropriate audit evidence to support provisions of R80 395 893 (2010: R70 806 893) disclosed in note 15 to the financial statements. The municipality's records did not permit the application of alternative audit procedures. Consequently, I was unable to determine the completeness, existence, rights and obligations, valuation and allocation of these provisions.

Trade and other payables from exchange transactions

11. I was unable to obtain sufficient appropriate audit evidence to support trade payables of R117 819 025 (2010: R288 506 375) included in trade and other payables of R278 925 958 disclosed in note 16 to the financial statements. The municipality's records did not permit the application of alternative audit procedures. Consequently, I was unable to determine the completeness, existence, rights and obligations and valuation and allocation of trade and other payables from exchange transactions.

Unspent conditional grants

12. I was unable to obtain sufficient appropriate audit evidence to support grants utilised of R4 310 095 affecting the balance of unspent conditional grants of R113 137 811 disclosed in note 14 to the financial statements. The municipality's records did not permit the application of alternative audit procedures. Consequently, I was unable to determine the completeness of the unspent conditional grants.

Revenue

13. I was unable to obtain sufficient appropriate audit evidence to determine the occurrence, completeness, accuracy and classification of revenue from the sale of electricity of R257 246 010 (2010: R226 152 504) and sale of water of R42 663 884 (2010: R50 296 271) included in service charges of R348 285 395 (2010: R320 733 640) disclosed in note 20 to the financial statements. The municipality's records did not permit the application of alternative audit procedures.

Expenditure

14. I was unable to obtain sufficient appropriate audit evidence for bulk purchases of R109 390 333 included in bulk purchases of R290 979 618 disclosed in the statement of financial performance. The municipality's records did not permit the application of alternative audit procedures. Consequently, I was unable to determine the occurrence, accuracy and classification of this expenditure.
15. I was unable to obtain sufficient appropriate audit evidence for contracted services and general expenses of R107 848 397 included in total contracted services and general expenses of expenditure of R120 895 578 (2010: R65 142 568) disclosed in the statement of financial performance. The municipality's records did not permit the application of alternative audit procedures. Consequently, I was unable to determine the occurrence, accuracy and classification of this expenditure.

Commitments

16. I was unable to obtain sufficient appropriate audit evidence to determine the completeness, existence, valuation and allocation and obligations of approved and contracted for as well as approved but not yet contracted for commitments of R194 122 292 (2010: R170 336 224) and R86 829 156 (2010: R51 954 122) respectively, included in commitments of R280 951 448 (2010: R222 290 346) as per note 34 to the financial statements. The municipality's records did not permit the application of alternative procedures.

Irregular expenditure

17. I was unable to obtain sufficient appropriate audit evidence for awards of R424 621 756 (2010: R148 776 495) made in terms of the municipality's supply chain management policy. The municipality's records did not permit application of alternative procedures. Furthermore, it was impracticable to quantify the resulting misstatement. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself that all material irregular expenditure has been disclosed in the notes to the financial statements.

Disclaimer of opinion

18. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

Emphasis of matter

19. I draw attention to the matter below. My opinion is not modified in respect of this matter:

Material underspending of conditional grant

20. As disclosed in note 14 to the financial statements, the municipality materially underspent the Municipal Infrastructure Grant by R111 576 238. As a result, the municipality has not achieved its objectives of service delivery.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

21. In accordance with the PAA and in terms of *General Notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, we include below our findings on the annual performance report as set out on pages xx to xx and material non-compliance with laws and regulations applicable to the municipality.

Predetermined objectives

Usefulness of information

22. The reported performance information was deficient in respect of the following criteria:
- Consistency: Objectives, indicators and targets are consistent between planning and reporting documents
 - Relevance: A clear and logical link exists between the objectives, outcomes, outputs, indicators and performance targets
 - Measurability: Indicators are well-defined and verifiable, and targets are specific, measurable and time-bound

The following audit findings relate to the above criteria:

Reported indicators and targets are not complete when compared with the planned indicators and targets

23. The actual achievements with regard to 67% of all planned indicators and targets specified in the integrated development plan for the year under review were not included in the report on predetermined objectives submitted for audit purposes.

Planned and reported targets are not specific

24. For the selected objectives, 100% of the planned and reported targets were not specific in clearly identifying the nature and the required level of performance.

Planned and reported indicators are not well defined

25. For the selected objectives, 100% of the planned and reported indicators were not clear, as unambiguous data definitions were not available to allow for data to be collected consistently and be easy to understand and use.

Planned and reported indicators are not verifiable

26. For the selected objectives, valid performance management processes and systems that produce actual performance against the planned indicators do not exist for 100% of the indicators.

Reliability of information

27. The reported performance information was deficient in respect of the following criteria:
- Validity: The reported performance has occurred and pertains to the entity.
 - Accuracy: The amounts, numbers and other data relating to reported actual performance have been recorded and reported appropriately.
 - Completeness: All actual results and events that should have been recorded have been included in the reported performance information.

The following audit findings relate to the above criteria:

The validity, accuracy and completeness of reported performance against indicators could not be confirmed as no supporting source information was provided

28. For the selected objectives the validity, accuracy and completeness of 100% of the reported indicators and targets could not be established as sufficient appropriate audit evidence could not be provided.

Compliance with laws and regulations

Annual financial statements, performance and annual reports

29. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of current assets, liabilities, revenue and disclosure items) identified by the auditors were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a disclaimer audit opinion.

Procurement and contract management

30. Goods and services with a transaction value of between R10 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers as per the requirements of SCM regulation 17(a) and (c).
31. Sufficient appropriate audit evidence could not be obtained that contracts and quotations to the value of R424 621 756 was procured in accordance with legislative requirements and the SCM policy.

Asset management

32. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which accounts for the assets of the municipality as required by section 63(2)(a) of the MFMA.

Revenue management

33. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which accounted for debtors as required by section 64(2)(e) of the MFMA.

Expenditure management

34. Money owed by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.

Housing Development Fund

35. The municipality did not maintain a separate operating account, known as the Housing Development Fund, as required by sections 15(5) and 16 of the Housing Act of South Africa, 1997 (Act No 107 of 1997).

INTERNAL CONTROL

36. In accordance with the PAA and in terms of *General Notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the basis for disclaimer of opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

- 37. The leadership did not exercise sufficient oversight responsibility regarding financial and performance reporting and compliance and related internal controls.
- 38. The leadership did not provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the interests of the entity.
- 39. Implemented human resource management policies did not ensure that adequate and sufficiently skilled resources are in place and that staff performance is effectively monitored.
- 40. The leadership did not establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities, and did not develop and monitor the implementation of action plans to address internal control deficiencies.

Financial and performance management

- 41. There was a lack of continuity in certain key management positions due to numerous suspensions, leading to these positions being filled by acting officials. The additional workload and pressure on the individuals who are acting in these positions had a negative impact on the financial reporting responsibility of the municipality.
- 42. The municipality did not implement a proper record keeping system to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.
- 43. Controls over daily and monthly processing and reconciling of transactions were not performed on a regular basis, contributing to material misstatements not being prevented or detected in the financial statements.
- 44. Management's internal controls and processes over the preparation and presentation of financial statements were not able to ensure that the financials were free from material misstatements.

Governance

- 45. Risk management activities to ensure that regular risk assessments are conducted and that a risk strategy is developed and monitored, were not effective in resolving the prior year internal control deficiencies.
- 46. The internal audit unit is not sufficiently resourced to ensure that all internal control deficiencies are identified, and that recommendations for corrective action are fully and effectively implemented.

Rustenburg

30 November 2011



AUDITOR - GENERAL
SOUTH AFRICA

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